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**VIA OVERNIGHT MAIL**

March 20, 2008

Ms. Elizabeth O'Donnell  
Executive Director  
Kentucky Public Service Commission  
211 Sower Boulevard  
P.O. Box 615  
Frankfort, Kentucky 40602-0615

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MAR 21 2008

PUBLIC SERVICE  
COMMISSION

Re: Case No. 2007-477

Dear Ms. O'Donnell:

Enclosed please find an original and 10 copies of the Responses of the First Data Request of Commission Staff, number 4 which was originally submitted with the response "will supplement" on behalf of Duke Energy Kentucky, Inc. in the above captioned case pursuant to the Commission's Order dated March 11, 2008.

Please date stamp and return the two extra copies of this letter in the enclosed, self-addressed envelope.

If you have any questions, please do not hesitate to contact me at (513) 419-1847.

Sincerely,

Anita M. Schafer  
Senior Paralegal

cc: Parties of Record

## CERTIFICATE OF SERVICE

I certify that a copy of the attached Responses of the First Data Request of Commission Staff, item 4 (dated March 11, 2008) on behalf of Duke Energy Kentucky, Inc. has been served by UPS overnight mail to the following parties on this 20th day of March, 2008:

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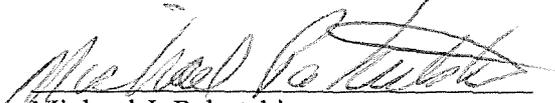
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Michael J. Pahutski

VERIFICATION

State of Ohio            )  
                                  ) ss:  
County of Hamilton    )

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The undersigned, Paul G. Smith being duly sworn, deposes and says that I am employed by the Duke Energy Corporation affiliated companies as Vice President Rates,-Ohio and Kentucky, that on behalf of Duke Energy Kentucky, Inc., I have supervised the preparation of the responses to the foregoing information requests; and that the matters set forth in the foregoing responses to information requests are true and accurate to the best of my knowledge, information and belief after reasonable inquiry.

  
Paul G. Smith., Affiant

Subscribed and sworn to before me by Paul G. Smith, on this 20<sup>th</sup> of March 2008.

  
Notary Public

My Commission Expires:



**ANITA M. SCHAFER**  
Notary Public, State of Ohio  
My Commission Expires  
November 4, 2009

**KyCOM Staff First Set Data Requests**  
**Duke Energy Kentucky**  
**Case No. 2007-00477**  
**Date Received: March 11, 2008**  
**Response Due Date: March 20, 2008**

**KyCOM-DR-01-004 Supplemental**

**REQUEST:**

Refer to pages 5-6 of the Schultz Testimony, specifically, the discussion of the proposal to capitalize, amortize and earn a return on the generation costs that are avoided through the energy efficiency efforts.

- a. Explain, in detail, why it is appropriate, from a rate-making perspective, to allow such treatment of non-existent costs.
- b. Explain why Duke is not considering capitalizing, amortizing, and earning a return of the actual costs of energy efficiency and demand-side management programs.

**RESPONSE:**

- a. The focus of the save-a-watt approach is to treat energy efficiency (both conservation and demand response) as a true resource, on a level playing field with other supply-side options. The Company's proposed methodology focuses on the value created for customers, rather than the costs incurred, with that value calculated by reference to avoided equivalent supply-side costs. The new energy-savings program of the future must compensate utilities for delivering "value" to its customers. The Company believes this method provides an appropriate incentive to the Company to develop, implement, and verify energy efficiency to achieve substantial energy and capacity savings, while also providing a "win" for the environment and for customers in terms of a discount from the costs that would otherwise need to be incurred and an opportunity to lower than bill.
- b. The current regulatory approach to utility-sponsored energy efficiency programs across the country fails to put energy efficiency on a level playing field with supply-side options. As a consequence, utilities have a natural incentive to focus more on supply-side options because those options produce greater cash earnings and do not erode utility earnings. As the EPA's National Action Plan for Energy Efficiency recognizes, "due to a number of obstacles, including utility incentive structures that link utilities' financial health to energy sales and the lack of standard methods for incorporating energy efficiency resources as part of resource planning efforts that allow efficiency to compete with new supply and transmission, **as a nation we are not capturing the true potential of cost-effective energy efficiency impacts.**"<sup>1</sup> If we are going to successfully address climate change in a manner that benefits

customers and shareholders while keeping energy rates reasonable, it is imperative that we capture energy efficiency's full economic potential. The new approach is the first methodology that drives a utility to go after ALL cost-effective energy efficiency.

1. Source: EPA Energy Efficiency Action Plan.

**WITNESS RESPONSIBLE:** Ted Schultz